

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

RECEIVED
MAR - 4 1996
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of)
)
Amendment of the Commission's Rules)
To Permit Flexible Service Offerings in)
the Commercial Mobile Radio Services)

WT Docket No. 96-6

DOCKET FILE COPY ORIGINAL

COMMENTS OF GTE SERVICE CORPORATION

GTE Service Corporation on behalf of its telephone and wireless companies hereby submits its comments in response to the Federal Communications Commission's ("FCC" or "Commission") Notice of Proposed Rulemaking ("Notice") released January 25, 1996.¹ In the Notice, the Commission proposes to authorize broadband commercial mobile radio service ("CMRS") providers to offer unrestricted fixed wireless local loop service. The Commission also seeks comment on whether other fixed services should be permitted on a primary basis. The Commission states that the proposed measures would increase competition among wireless service providers and promote competition between wireless and wireline services.²

As described herein, GTE supports in principle the Commission's tentative conclusion that unrestricted CMRS provider entry into fixed service markets will facilitate competition in the local exchange marketplace. The Commission's

¹ Amendment of the Commission's Rules to Permit Flexible Service Offerings in the Commercial Mobile Radio Services, *Notice of Proposed Rulemaking*, WT Docket No. 96-6 (released January 25, 1996).

² *Notice* at 3 (para. 1).

proposal, however, raises a number of issues concerning local exchange carrier's (LEC's) ability to compete on fair terms with CMRS and other competitors. In particular, there are a number of regulatory requirements in place that uneconomically restrict a LEC's ability to price services in a competitive manner. These restrictions must be removed prior to any Commission action to amend its current rules restricting broadband CMRS providers' ability to offer fixed wireless services.

I. DISCUSSION

A. GTE Supports in Principle The Commission's Efforts to Remove any Barriers to CMRS Entry into Fixed Local Exchange Services

In the *Notice*, the Commission proposes to amend the permissible communications language in the broadband personal communications services ("PCS") rules to explicitly encompass fixed wireless local loop.³ Likewise, the Commission proposes to modify its rules to allow cellular and specialized mobile radio ("SMR") service licensees to provide unrestricted wireless local loop.⁴ The Commission also seeks comment on whether broadband CMRS providers should be allowed to provide other fixed services on a primary basis.⁵ The Commission tentatively concludes that these rule changes represent a significant step towards furthering its interest in promoting competitive local exchange service throughout the United States.⁶

³ *Id.* at 10 (para. 13).

⁴ *Id.* at 10-11 (para. 16).

⁵ *Id.* at 14 (para. 22).

⁶ *Id.* at 6-7 (paras. 8-9).

GTE agrees in principle with the Commission's tentative conclusions that adopting the proposed rule changes will improve broadband CMRS providers' ability to compete with LECs in the local exchange market. Indeed, GTE has long supported Commission initiatives to promote fair competition among local exchange service providers.⁷

B. The Commission Must Take Steps to Ensure that LECs are able to Compete Fairly with CMRS Providers Before It Takes any Action to Relax its Rules Restricting Fixed Wireless Services

Recent passage of the Telecommunications Act of 1996⁸ has brought to the forefront a number of issues regarding the removal of barriers to competitive entry into local exchange markets and a concomitant restructuring of the regulations that apply to incumbent local exchange providers' service offerings. In passing this important piece of legislation, Congress has recognized that LECs are burdened with a number of outdated and inefficient regulatory requirements that restrict them from being able to compete with less-regulated entities. Thus, Congress has required the Commission to implement a number of rules and to enforce a number of provisions that will substantially reduce regulatory limitations to LEC pricing structures. Implementation of these provisions will have a profound affect on the instant proceeding.

⁷ See, e.g., Expanded Interconnection with Local Telephone Company Facilities, Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board, CC Docket Nos. 91-141 and 80-286, GTE Comments (filed January 14, 1993) at 2; Testimony of Edward C. Beauvais, PhD, Washington UT-941464, UT-941465, UT-950146, UT-940265 (April 17, 1995).

⁸ Pub. L. No. 104-104, 110 Stat. 56 (1996).

In this proceeding, the Commission seeks to remove potential barriers to CMRS entry into the local exchange marketplace. The *Notice*, however, fails to consider that absent regulatory action to remove LEC pricing restrictions, the competition that results will be flawed. GTE therefore believes that, prior to relaxing its fixed CMRS rules, the Commission must take action to safeguard local exchange carriers' ability to provide universal service and to price services in a way that will facilitate fair competition and ensure that market participants behave in an economically efficient manner.

LECs today are largely operating under pricing structures that were established in days predating competition. In a competitive market, these pricing structures result in distorted pricing signals that can lead to non-economic and inefficient entry decisions by new parties. To remove these distortions, the following steps must be taken:

1. A Universal Service Funding Mechanism Must Be in Place

In order to guard against erosion of universal service support, a universal service funding mechanism must be in place which removes all implicit subsidies from LEC rates. Subsidies deemed important and necessary should be made explicit and funded by contributions from all telecommunications service providers. Currently, the majority of universal service funding is implicit, i.e., below-cost prices for some customers are funded by substantially above-cost prices for others. Implicit subsidies exist in both federal and state pricing policies. Implicit subsidies allow new entrants to enter the market by targeting customers from whom implicit universal service support is being collected. When

this occurs, critical support for universal service is lost. To protect new entrants from eroding universal service support, therefore, subsidies must be made explicit and funded by all telecommunications providers.

2. LECs Must Be Allowed Pricing Flexibility

Federal and state regulatory authorities currently restrict LECs ability to raise and lower prices without regulatory approval or excessive delay. As such, LECs are either not able to make the price adjustments necessary to respond to competition, or are not nimble enough to react quickly to changing market conditions. In order for LECs to compete fairly with CMRS providers, they must receive significantly greater pricing flexibility.⁹

3. LECs Must Be Allowed to Deaverage Rates

LECs are also restricted in their ability to vary prices to reflect the economic cost of serving different geographic areas. Thus, LECs cannot compete on equal terms with competitors that may provide service only in low cost geographic areas or vary prices in accordance with the cost of providing service in each geographic region. To remedy this disparity of regulation, GTE believes that LECs must be able to define their geographic markets and deaverage the prices they charge in each market to reflect the cost of doing business. To the extent that deaveraged rates affect universal service support, these issues can and should be addressed by the new universal service funding mechanism.

⁹ GTE, however, does not oppose maintaining reasonable price floors related to long-run incremental costs or price ceilings limiting annual price increases.

4. LEC Rates Must Be Rebalanced

As discussed above, LEC rates are encumbered by a number of subsidies, pricing limitations, and other distortions resulting in LEC rates that do not reflect economic costs. If current pricing restrictions remain in place, the marketplace cannot and will not reward the most efficient service providers. In order to ensure that service providers behave in an economically efficient manner, therefore, LECs must be able to rebalance their rates to reflect true economic costs.

5. LECs Choosing to Resell the Local Exchange Services of Other Providers Must Not Incur Regulation Greater than that Imposed on the Other Providers

As competing providers of local exchange service enter the market, incumbent LECs may choose to resell their services. For example, a LEC might resell a competitor's service within its current franchise areas, or it might resell another local exchange carrier's service as a means of expanding its geographic reach. If the Commission chooses to apply a lesser degree of regulation to LEC competitors, then GTE believes the Commission should apply the same level of regulation to the reselling LEC that applies to the underlying service provider. A number of common carriers are positioning themselves to provide facilities-based competition in the local exchange marketplace. In addition to broadband CMRS providers, facilities-based local exchange services might also be provided by alternative local exchange carriers, cable companies, and public utilities such as power and gas companies. Given the number of potential facilities-based entrants, LECs, even if reselling service in their franchise area, will neither

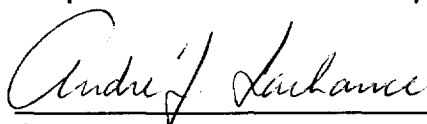
possess market power nor be able to discriminate against other providers of local exchange services. For these reasons, it would be inappropriate to burden the LEC with additional regulatory requirements beyond those imposed on the underlying service provider.

II. CONCLUSION

GTE has long supported Commission initiatives to promote fair competition in the local exchange market. Accordingly, GTE supports in principle the Commission's tentative conclusion that unrestricted CMRS provider entry into fixed service markets will facilitate competition in the local exchange marketplace. In order to ensure fair competition among all providers of local exchange services, however, the Commission must first take action to remove regulatory restrictions to LECs' ability to price services in a competitive and economically efficient manner. In particular, prior to amending its rules limiting CMRS provider's ability to offer fixed services on an unrestricted basis, the Commission must: (1) adopt a new universal service funding mechanism; (2) allow LECs significantly greater pricing flexibility; (3) allow LECs to geographically deaverage rates; (4) allow LECs to rebalance current rate levels to reflect true economic costs; and (5) apply to LECs choosing to resell local exchange services no greater regulation than that applied to the underlying service provider.

Respectfully submitted,

GTE Service Corporation and its
telephone and wireless companies

A handwritten signature in cursive script, reading "Andre J. Lachance", written over a horizontal line.

Andre J. Lachance
1850 M. Street, N.W., Suite 1200
Washington, D.C. 20036
(202) 463-5276

March 4, 1996

Their Attorney